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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

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12 June 1975

[redacted]

MEMORANDUM FOR: Ann Pinkney
Office of Northern European Affairs
Department of State

SUBJECT : Briefing Material for [redacted]
Senator Mondale

Attached is the updated and declassified version of the article on Norwegian oil policy, for Senator Mondale's briefing packet. If you have any further questions, please call [redacted] on code [redacted]

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Chief
Western Europe Branch
Industrial Nations Division
Office of Economic Research

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NORWAY: PETROLEUM POLICY SOFTENED

Oslo has grudgingly endorsed a faster pace of petroleum development to keep up with British activity in the North Sea. Norway wants to obtain a fair share of the oil and gas being found along the border of the Norwegian and British sectors; this desire has overcome its preference for a slower rate of development, which would prolong self-sufficiency, lessen inflationary pressures, and minimize social and environmental disruption. Norway nonetheless will be producing well below the maximum that recent discoveries could support.

Oslo now seems likely to allow petroleum production to rise from the present 200,000 b/d to 2 million b/d by 1980, including gas equivalent to 500,000 b/d. It initially had hoped to hold output to 1.4 million b/d. Most of the rising output will be exported; current domestic consumption is a mere 160,000 b/d.

CONFLICTING PRESSURES

Activity in the British sector of the North Sea has forced Norway's hand. British haste in leasing and exploring the North Sea area has led to a rash of sizable oil and gas discoveries straddling the line between the two sectors. The stepped up British activity in the area is forcing Norway to keep pace to prevent Britain from draining their common fields. Oslo recently announced plans to open nine new blocks near the UK borderline for oil and gas exploration.

Norwegian oil policy has been little affected by recent weakness in the shipping and shipbuilding sectors, which normally contribute 15% of GNP and one-third of current account receipts. The surge in oil-related capital inflows has prevented appreciable erosion in foreign reserves. Oslo still appears to be more concerned about handling the future bonanza of oil dollars than about financing current import requirements. One effect of the slump in shipping and shipbuilding has been to ease pressure from the oil boom by releasing workers and allowing shipyards to build offshore rigs and tenders.

Opposition to rapid petroleum development remains strong for economic, social, and ecological reasons. The oil boom is blamed for raising the inflation rate from 7% in 1973 to 11% in 1974 -- even though other factors clearly have contributed to spiraling prices -- and for aggravating a chronic labor shortage. Many people fear that the luring away of people from the traditional occupations of fishing and farming will change Norwegian society for the worse. Environmentalists warn against air pollution by refineries. They also charge that construction of huge drilling platforms is disfiguring numerous fjords. Nationalists simply want to keep as much of the oil as possible for future use in Norway.

Aside from marring once-scenic coastal areas, oil development so far has had few undesirable effects. No major pollution incidents have occurred. Investment in the oil and gas industry -- which made up 13% of capital spending last year and will continue to rise rapidly -- has created little pressure on credit facilities. Employment in the industry and in supporting jobs stands at only 30,000 people, 2% of the labor force. This number is not likely to increase much because emphasis will soon shift from exploration to extraction which is less labor-intensive. The needs of other sectors, particularly services, are more apt to strain labor supply as the oil boom stimulates the domestic economy. Inflation, while high by historic standards, so far has remained well below the OECD average.

CURRENT POLICIES

The government proposed an oil tax program last year that would have taken 90% of profits, then backed down in the face of oil company protests and enacted a package cutting the government take to 57%-66% at current prices. The revised tax arrangement has left Norwegian oil competitive internationally and has elicited a generally positive response from the companies.

The Norwegians are relying primarily on licensing to regulate the pace of petroleum development. Oslo has leased only 25% of the offshore shelf south of 62 degrees and has refused to grant exploration licenses until 1977 for the more promising areas north of this latitude. It also is moving to take a more active role in every phase of the industry through Statoil, the state-owned company. Statoil has the option of buying a 51% interest in any field once production has begun and could use this right to restrict output. Oslo is currently negotiating with British Petroleum to buy BP's retail assets in Norway as part of the effort to secure Statoil's distribution system.